

PRINCIPLES FOR PRICING MARKET MILK*

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THE principal objective of a university is to assemble, discover, and disseminate truths which will be most useful in improving the standards of living of the people whom it serves. Hence, in setting down principles for pricing of market milk, the first question which a university researcher may logically raise is: *Is the proposed pricing policy in line with public interest?* Does it tend to encourage the maintenance and expansion of sales of market milk in line with nutritional needs? Does it tend to promote harmony between producers and dealers and to put a stop to milk strikes which in the past have been costly to all groups?

A second question: *Is the proposed pricing policy fair to the various interests involved?* Is it fair to farmers? Is it fair to dealers? Is it fair to labor?

A third question: *Is the proposed pricing policy workable?* A large number of proposals for policy changes are impractical because for one reason or another they would not be accepted by the groups affected. Eventual acceptance by both producers and dealers is essential to the practical operation of any milk pricing policy.

Keeping in mind the above facts, the following principles are suggested as a basis for determining the price of market milk used in whole form:

1. *Both milk and cream for any market should be produced in areas where costs of getting milk produced plus transport costs are the lowest.* If Minnesota or Illinois farmers can produce high-quality milk and transport it to Florida or Texas more cheaply than it can be produced in these states, it should be produced in Minnesota. From a public viewpoint, consumers are interested in getting high-quality products at reasonable prices. An underlying basis for the high standards of living in the United States has been the application of the "law of comparative advantage," wherein goods are produced in low-cost areas. Michigan and New York produce large quantities of apples, but no oranges; most of our oranges are pro-

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duced in California and Florida, where the natural advantage of climate results in low-cost orange production.

Cream can be shipped long distances at relatively low cost. Costs for hauling cream are about one-tenth of those for hauling market milk. Much cream is still being separated from market milk in several eastern markets. In New York City, for example, a major part of the cream used is obtained from milk produced in the New York milkshed. As a long-time program, it is good economics for eastern markets to use as market milk as large a proportion of its total production as possible and to make up shortages with shipments of cream from the surplus producing areas of the midwest. In some markets this will necessitate shifting of some producers from one milkshed to another or working out some method for intermarket shipments of milk.

2. *The price for market milk (Class I) should be established in a federal order so that it automatically goes up or down in line with some dynamic factor, such as prices of manufactured dairy products, consumers' income, other farm prices, or some combination of these price series.* During World War I there was an epidemic of milk strikes throughout the country accompanied by physical violence, dumping of milk, and much bitterness between milk dealers and dairy farmers over the question of pricing of milk. In sharp contrast to this situation, during the past eight years most markets have had no milk strikes and, for the most part, producers and dealers have worked together to use the milk produced in the best way possible to meet a shortage of this important product. Why this difference?

This difference can be attributed to: First to the nation-wide acceptance of collective bargaining between dairy farmers and milk dealers; second, to the operation of federal milk orders in some 30 markets in which milk prices have been geared to change automatically with changes in prices of manufactured dairy products; and third, to a 14-year period of rising prices.

3. *The price for market milk (Class I) should be established at premiums above prices of manufactured dairy products sufficiently high to get a blend price which will encourage enough but not too much milk to meet market needs. Bottom prices of manufactured dairy products should be kept as high as practical to prevent Class I prices being too high, and to prevent dealers who handle a large volume of surplus milk from having an unfair advantage over dealers*

whose purchases are largely for Class I sales. A monthly average of around 20 percent above Class I requirements is necessary to meet day-to-day changes in production and sales.

4. Since it is uneconomical to produce large quantities of Grade A or other high-priced milk to be manufactured into lower priced surplus products, *premiums paid for Class I milk above prices for manufactured dairy products:*

(a) *Should be larger in months of low production and smaller in months of high production to encourage an annual production more nearly in line with a market's need for milk and*

(b) *Should be raised on an annual basis if there is too little milk to meet whole milk requirements, and lowered if the blend price results in too much milk in the shortage months to meet whole milk requirements.*

The Boston Milkshed Price Committee is to be commended for its action in providing for an automatic increase in Class I premiums when production in relation to Class I sales is too low and a decrease in these premiums when production in relation to Class I sales is too high.

To stimulate thinking, on July 8, I presented an application of the Boston principle of flexible premiums at a federal order hearing in St. Louis. Present St. Louis premiums above condensery prices are \$1.35 per 100 pounds from July to December, \$1.10 from January to March, and 90 cents per 100 pounds from April to June. A study of St. Louis production and sales in recent years showed that a surplus of 28 percent above Class I sales was necessary to provide a necessary monthly surplus and seasonal surplus.

The adjustments suggested were: (1) If actual surplus for the past year is less than 28 percent above Class I sales, add 2 or 3 cents per 100 pounds for each percent that actual surplus is less than 28 percent; if actual surplus were more than 28 percent above Class I sales subtract 2 or 3 cents per 100 pounds for each percent that actual surplus exceeded 28 percent. Additions or reductions to premiums would be effective for each of the next 12 months.

This method would provide an automatic change in premiums above condensery prices every year, and each year call to producers attention the importance of producing enough but not too much milk to meet Class I needs.

The computations for arriving at the amounts that would have been added or subtracted from premiums paid for Class I milk

above the 23 condensery average price in the St. Louis market from 1941 to 1947, are shown as follows:

Year	Proportion that Class I sales were of total production	Actual surplus above Class I sales	Necessary plus seasonal surplus base period 1941-47	Amount actual surplus was above or below 28 percent	Amount that Class I price would have changed if adjustments had been made	
					At 2 cents for each percentage	At 3 cents for each percentage
	(percent)	(percent)	(percent)	(percent)	(per 100 pounds)	
1941	62	38	28	-10	\$-.20	\$-.30
1942	77	23	28	+ 5	+.10	+.15
1943	88	12	28	+16	+.32	+.48
1944	83	17	28	+11	+.22	+.33
1945	84	16	28	+12	+.24	+.36
1946	89	11	28	+17	+.34	+.51
1947	88	12	28	+16	+.32	+.48